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A period of reconstruction ensued until the end of 1940. Much of the money of the nearby provinces had found its way into Shanghai banks during the early days of the hostilities. This money early sought employment. There was a building boom in the western district of the Settlement proper which had been free from fighting and which was one of the few areas on the China coast where Chinese industrial enterprises could develop without Japanese control. In 1938 the Government of China retired successively to Hankow and later to Chungking. Many Shanghai Chinese factory owners, while rebuilding in Shanghai, were prepared also to play their part in the industrialisation of interior China which was to be so significant in the succeeding years. Their plants in Shanghai were equally important for the war effort of Free China, however, in the years that intervened between 1938 and the outbreak of Pacific hostilities in 1941. While Hongkong remained open as a port and until through Japanese instigation the Chinese Customs in Shanghai in the autumn of 1941 prevented the export from Shanghai of certain commodities including cotton goods, very heavy shipments month by month left for the south for transport into interior China. Much cargo found its way out of Shanghai by canals and even by human transport, finally penetrating the Japanese lines and reaching the western provinces. The importance of Shanghai as a supply base during almost four years of war can be recognized when the commodity situation in free China in 1942 and later is considered. There were never sufficient consumer goods in the interior even when the trade channels from the coast were open; but the worsening of the situation and the consequent extreme rise in price levels date from the loss of Shanghai products.

In the western district Extra-Settlement area, in the enclaves between Settlement-policed roads, hundreds of new industrial structures began to rise on former vegetable gardens drained by tidal creeks. Over their construction the Shanghai Municipal Council could exercise no authority. These workshops and factories lacked elementary sanitary provisions, and, because the flimsy buildings were of inflammable material, fires were frequent. But as soon as fire had destroyed a building, the indomitable Chinese small industrialist began its reconstruction. Within the limits of the Settlement proper, the reconstruction period was used as far as possible by Public Works and Health Departments, as well as Fire Brigade

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CHAPTER IV

ECONOMIC AND SOCIAL ASPECTS OF EMPLOYMENT

THE WAGE LEVELS IN modern industry in Shanghai during its early decades were influenced by those ruling in small-scale enterprises during the pre-industrial era and by the general level of earnings in the countryside. Since these were low, the earnings of a principal wage earner in large-scale industry have never been sufficient for the needs of his family. This situation can be traced partly to the existence of a superabundance of labour supply. Considering the comparatively small cost of maintaining the low standard of living of workers' families in pre-hostility days, it would seem not to have been essential that modern industry should thus have developed on wages in general too low for the family needs. In view of the severe inflation which by 1942 had so greatly affected the lives of the Chinese people whether in occupied or free China, it is fortunate that a most comprehensive and basic study of the cost and standard of living of Shanghai workers exists which was based upon budgetary enquiries over the twelve months, April 1929 to March 1930, and was conducted by the Bureau of Social Affairs of the City Government of Greater Shanghai. The study made use of the daily recorded incomes and expenditures of 305 families whose heads were manual workers.[1]

The average size of the family was found to be 4.62 persons, the equivalent of 3.28 male adults. The average number of gainfully employed persons was 2.06 per family. The significance of this figure will be understood when the family income is analysed.

The average annual income of the families studied was $416.51.[2] Of this amount, however, the study showed that the combined earnings of all family members comprised only 87.3 per cent. The

[1] The study necessitated visits by investigators to families every day for a whole year, since many were unable to record expenditures. A sample re-study was undertaken is the last months of 1941 and the beginning of 1942.

[2] All dollar figures, except where otherwise stated, refer to Chinese National Currency. The Japanese-supported Nanking regime instituted Central Reserve Bank notes in 1941 which in 1942 were declared only legal tender in Shanghai, displacing Chinese National currency at the rate of CNC $2.00 to CRB $1.00.

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earnings of the principal wage earner provided only 53.3 per cent, other members contributing 34 per cent. An amount of 12.7 per cent had to come from other sources. It is thus obvious that the earnings of a principal wage earner were but a relatively small part of the family income, and that the earnings of a least a second member of the family were needed. In addition to the earnings of both of these, financial support from relatives and friends had to be sought, or borrowing from moneylenders was necessary; otherwise income had to be obtained from such activities as peddling or sub-letting rooms.

The average family expenditure was $454.38, leaving an average annual deficit of $37.87. If income from wages earned by all family members only is considered, disregarding income from other sources, the average annual deficit was found to rise to $121.23. The excess of the family expenditure over the income of the principal wage earner was greater still. Working-class families, it goes without saying, spend extremely carefully; the majority of their expenditures are for basic needs.

It may be assumed that the 1929-30 standard of living remained virtually unchanged until the end of 1936, the last normal year before Sino-Japanese hostilities. The cost of living index (1926—100) was at 101.98 in 1929, 116.79 in 1930, and 105.04 in 1936. In other words, costs in 1936 were approximately what they had been in 1926, and below the 1930 level.

The outbreak of hostilities in August 1937 affected extensively the livelihood of the workers. The 1926 base period of the index, being remote in time, ceased to be significant, and in 1938 the index was recalculated on a 1936 base. Changes in living costs were somewhat slow to appear since not until August 1939 did the index figures show the cost to be double what it had been in 1936. Thereafter, however, changes were rapid. Certain basic foods disappeared from the markets. By the beginning of 1940, *sien mee*, a popular native rice, was no longer procurable, and second-grade Saigon rice replaced it as the people's food. *Kan mee*, a non-glutinous Chinese rice, reached the Shanghai markets only in small quantities and at high prices. Finally, in February 1941, orders for Saigon rice could not be placed in Indo-China, and Saigon rice in turn was replaced as the workers' food in May 1941 by Rangoon rice imported via Hongkong by the Settlement

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511 authorities.[3] There were concurrent changes in the types of fuel
435 in common use. Charcoal and firewood were replaced by coal
458 briquettes. Accordingly very careful alterations in the basis of the index figures of the cost of living of Shanghai workers were made, disturbing the index as little as possible, but taking account of the changes in consumption. In July 1941 a Revised Index embodying these changes was first published.

511 Since price levels continued to rise, it became apparent that
458 a sample re-study must be made of the consumption habits of the workers which change when money buys less. This re-study was in progress when the Pacific war broke out. Records of the daily expenditures of 101 families were obtained for the months of December 1941 and January 1942. With the facts thus obtained a New Index was calculated, based on the standard of living of the months mentioned with average prices in Chinese National Currency ruling in 1936 as 100. The annual New Index figures for the years since 1936 were: 1936—100, 1937—119.08, 1938—150.62, 1939—197.52, 1940—428.35, 1941—826.24. By May 1942, the figure had reached 2,663.21. In this month Chinese National Currency fell sharply in terms of the new currency introduced by the Nanking Chinese Government with the support of Japan. These new currency notes of the Central Reserve Bank, referred to as CRB notes, were declared the only legal tender in June 1942. In that month the value of the Chinese National Currency in terms of the new currency was further devaluated until two dollars CNC were equivalent to one dollar CRB at official rates. Unofficial rates were more disadvantageous. Despite efforts at price control by the Shanghai Municipal Council, the occasion of the currency changeover was taken by many shopkeepers to raise prices by converting CNC prices unchanged into CRB prices, thereby automatically doubling them. The June index figure derived from prices expressed in old currency reached 3,870.48. Expressed in new currency the figure for that month was 1,935.24 at the official rates ruling. The following table indicates the position in the index figures of cost of living of Chinese workers from March 1942, when Chinese National Currency and Central Reserve Bank Notes, previously circulating at par, began to diverge:

[3] See Chapter VIII, p. 96.

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NEW INDEX OF COST OF LIVING OF CHINESE WORKERS

	CNC	*Purchasing Power of Dollar (cents)*	CRB	*Purchasing Power of Dollar (cents)*
March	1781.60	5.61	1768.42	5.65
April	2211.67	4.52	1702.98	5.87
May	2663.21	3.75	1844.54	5.42
June	3870.48	2.58	1935.24	5.17
July	——		2163.51	4.62

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The re-study of the standard of living of Chinese workers indicated that a change had taken place in the distribution of sources of income. The principal wage earner was found to bring in 66.28 per cent of the family income as against 53.3 per cent in 1929-30. Earnings of other members of the family were proportionately less, being only 13.21 as against 34 per cent in 1929-30. The earnings of all family members were still insufficient: 20.51 per cent of the family income had to come from other sources as against 12.7 per cent in 1929-30. It is certain that much of this additional "income" had to be obtained from borrowing at high interest. A typical example of the external borrowing is given on pages 48, 49.

Once again the study showed, as had the original study of 1929-30, that the total family income from all sources, including borrowing, fell short of the total family expenditure. The number of family members was slightly larger than shown in the former study, 5.02 persons, or 4.41 consumption units as against 4.62 persons or 3.28 consumption units in 1929-30.

What in terms of actual cash did the rise in the cost of living mean to workers' families? This can perhaps be shown by costing out certain basic commodities and services whose price movements were followed month by month to produce the index figures quoted above. Into the New Index calculations there enter 54 items, the most important in the budgets of workers' families. These include 27 food items, nine in the housing group which embraces rent, fuel, etc., eleven clothing items, and six in the miscellaneous group. To buy these items in 1936 would have cost $27.71. The average family spent more than this each month. Expenses incurred through sickness, birth, death, marriage and for many other reasons must be met, but cannot be computed regularly to produce index figures.

To meet the $27.71 which the indexed commodities and services

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cost in 1936, the principal wage earner would have had to earn 53.3 per cent, or $14.76 per month. A second member would have had to earn 34 per cent, or $9.42. Elsewhere $3.53 or 12.7 per cent would have to be found. These earnings were possible in 1936. Even unskilled male workers in textile plants, a low-paid industry, earned $16 a month. True, even then the gap between earnings and the total family income needed was wide and necessitated borrowing. But when costs rose, when the index figure of July 1942 was 2,163.51 with prices expressed in Central Reserve Bank Notes, income necessary for the maintenance of a family exceeded what most industries which continued to operate could pay. A principal wage earner would have had to earn CRB $325.32. A second wage earner, always assuming that work could be found, had to bring in CRB $65.31, and other income chiefly from borrowing and amounting to CRB $100.79, had to be found. Since few workers could in July 1942 muster this sum, though founded on standard of expenditure as recent as December 1941-January 1942, it was obvious that the standard of living even for those workers who continued to be employed was still declining. A careful calculation of the minimum needs of a family in July 1942 showed that CRB $426.54 was needed, with a principal wage earner producing $282.375. Since few workers would reach even this standard it follows that a considerable proportion of the community was living below subsistence standards.

In the months that have elapsed since the middle of 1942 the situation has, from all available evidence, still further deteriorated. Accurate figures are lacking. The misery was so great that it seemed it could not be worse. Yet an even greater cost has been exacted of a long-suffering people.

Consideration of the figures given above shows clearly that the basis of remuneration of workers by which the principal wage earner did not earn enough for the needs of his family so that other income must be obtained through the efforts of other members of the family and from other sources was unsatisfactory.[4]

[4] The question will of course be asked, "How does the family live?" The answer is, to use the words of a Chinese observer, "By moving the debts." Short-term loans at high interest successively added to by others are contracted. The following is the load position of one low-paid employee who borrowed eight times in three years:

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Discrepancies between earnings and costs tend to become aggravated when living costs rise. The difference between what a principal wage earner could earn and what it cost his family to live became so wide that a serious lowering of living standards inevitably resulted.

To help to check the inflationary tendencies which from 1938 onward appeared, wage levels should in theory not have been permitted to rise. Instead, price levels should have been fixed and spending sharply reduced. The currency of the Settlement was that of the Chinese government faced with fighting a long war. With the provinces near Shanghai in Japanese military control and there being, for a long time after the withdrawal of the Chungking authorities from Nanking virtually no government in the area, there was no possibility of such organised measures being put into effect. With rising living costs the only alternative, therefore, was to raise earnings standards, though admittedly this contributed to further price rises. Moreover, it is one thing to limit spending in a country where there is a margin which can be eliminated and another to do so at the risk of seriously reducing the standard of living. In Shanghai where workers must spend all of their earnings and more on basic necessities, to limit spending presented, to say the least, a difficulty.

Studies of wages and earnings in 1941 show that industry, both foreign-owned and Chinese-owned, attempted to bridge the gap between rising living costs and what the pay envelope contained. On a 1936 base of 100, the earnings index of Chinese-owned plants in 1941 stood at 457.65, an increase of almost 100 over the earnings index of 242.65 in 1940. In foreign-owned plants the earnings index was 465.54 in 1941. Though slightly below the earnings index of Chinese-owned plants, the money earnings in foreign-

Creditor	*Amount of loan*	*Interest*	*Currency of loan at time of enquiry*
A Sikh	$20	$2 per month	30 months
A friend	50	5 "	24 "
A woman	30	2 "	24 "
A widow	25	1.50 "	12 "
		Principal and Interest	
A liftman	15	$6 per month	6 months
A fellow worker	15	6 "	5 "
A chauffeur	15	6 "	3 "
A chauffeur	20	8 "	2 "

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owned enterprises were considerably higher. Calculated upon the July 1941 Revised Index of cost of living of Chinese workers, the real wage index was 53.64 in 1941 and in foreign-owned plants 53.39. That the real wage position was not worse was due to the sincere efforts of industry to make as substantial adjustments as possible. The following table shows the real wage indices in Chinese-owned plants since 1930.

INDICES OF ACTUAL EARNINGS, COST OF LIVING (REVISED), AND REAL WAGES 1930-1940[5]

New Base: 1936=100

	1930	*1931*	*1932*	*1933*	*1934*	*1935*
Actual earnings	106.95	107.34	106.08	103.21	98.10	90.49
Cost of living (revised)	108.75	106.63	100.64	92.32	92.52	93.45
Real wages	98.34	100.67	105.41	111.80	106.03	96.83
	1936	*1937*	*1938*	*1939*	*1940*	*1941*
Actual earnings	100.00	84.83	92.38	119.09	242.47	467.65
Cost of living (revised)	100.00	119.09	155.28	202.99	430.61	871.89
Real wages	100.00	71.23	59.49	58.67	56.31	53.64

The index figures of cost of living of Shanghai workers, as earlier stated, were based upon the work of the former Shanghai Chinese City Government, whose continuance the Council assured after that Government's withdrawal following 1937 hostilities. It was not clearly seen, at the end of 1937, that these figures would assume importance in subsequent years when declining dollar values destroyed previous earnings standards. The regular monthly publication in the press and in the *Gazette*, official publication of the Council, of amounts in dollars which must be available to cover the family's living cost proved useful in helping in adjustments of earnings. The Division was consulted on many occasions by both Chinese and foreign employers and asked to make concrete recommendations as to the actual amounts which should be paid.

In addition, the work of mediation in industrial disputes which was a regular activity of the Division was important in assisting wage adjustments. While some employers forestalled otherwise inevitable labour disputes, anticipating them through raising earnings when significant rises in living costs appeared, others, perhaps in some cases in less satisfactory financial situations, and unable

[5] Indices derived from the "New" Index based on December 1941-January 1942 studies, were not available in August 1942, the date of last contact with Shanghai.